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STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF LABOR & ECONOMIC GROWTH
ROBERT W. SWANSON, DIRECTOR

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COMMISSIONER

DATE: December 8, 2006

LETTER NO.: 2006-CU-09

TO: The Board of Directors and Management of Michigan State-Chartered Credit Unions

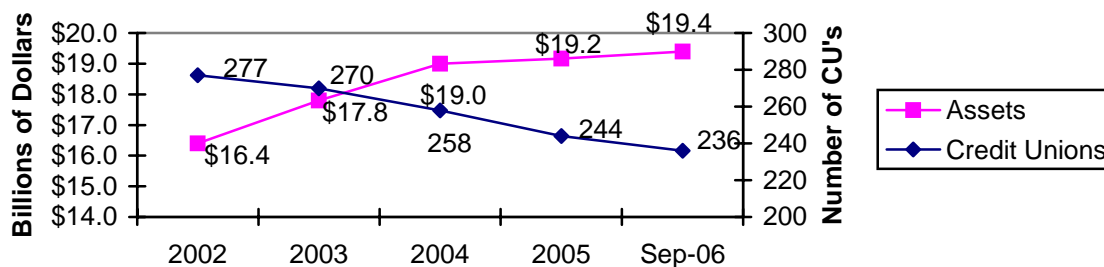
SUBJECT: 2006 Third Quarter Financial Results

The Office of Financial and Insurance Services (OFIS) compiles call report information to monitor Michigan state-chartered credit unions, both individually, and in the aggregate. The purpose of this letter is to share some overall industry trends and highlight certain areas of particular concern based on the September 30, 2006, call report filings. The following information and analysis does not include CenCorp Credit Union.

Consolidation Continues

The number of Michigan state-chartered credit unions declined by two during the second quarter of 2006. Asset growth continued to decline during the third quarter of 2006 at a -2.57% rate. The number of credit unions reporting a decline in assets greater than 5% increased from 40 at June 30, 2006, to 56 at September 30, 2006. While assets declined for the last two consecutive quarters, assets remain nearly \$214 million greater than year end 2005 (Figure 1).

Figure 1

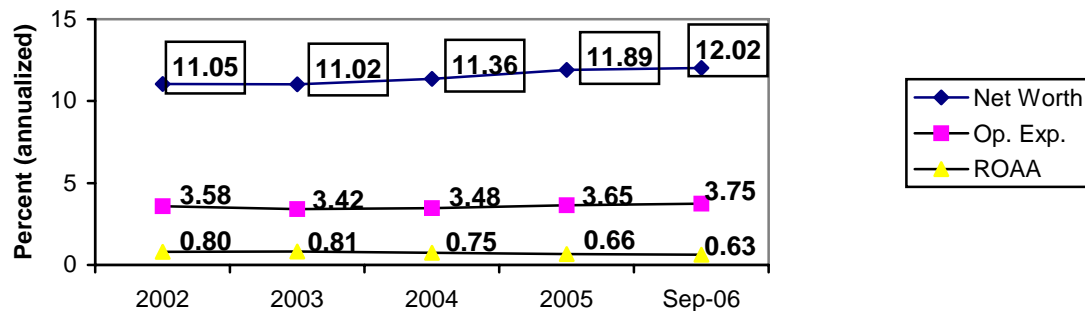


Interest Margin Improves

Net worth increased from 11.80% at June 30, 2006, to 12.02% at September, 2006. The increase in the net worth ratio can be attributed to the slight decline in assets and steady earnings. Gross income increased 16 basis points during the third quarter of 2006 while cost of funds increased 10 basis points and operating expenses increased five basis points (Figure 2).

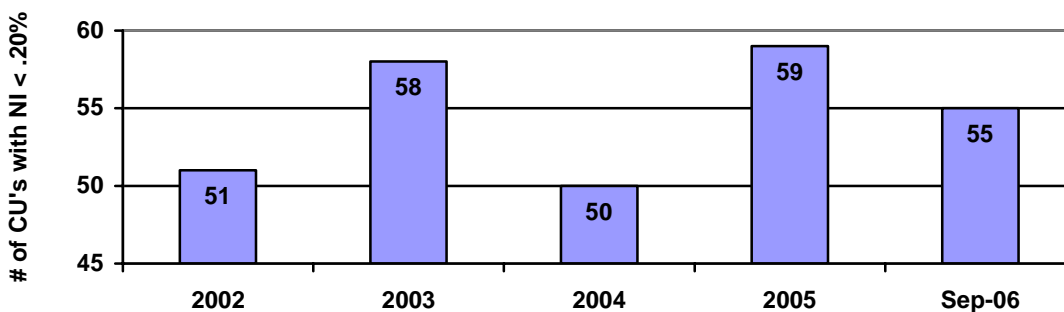
The increase in the spread between interest income and cost of funds can be attributed to the increase in higher yielding loans, while shares and assets declined during the same period. Despite the decline in assets during the third quarter, aggregate loans increased 5.91%, while shares and deposits declined nearly \$310 million or 7.48% (annualized).

Figure 2



Return on average assets declined three basis points to 0.63% during the third quarter of 2006. The number of credit unions reporting an ROAA of less than .20% was 55 at September 30, 2006, an increase of two from the second quarter of 2006 and five more than September 30, 2005 totals (Figure 3).

Figure 3



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Asset Quality Remains Sound

The aggregate delinquency ratio increased slightly from 1.01% to 1.07% during the third quarter of 2006. The aggregate net charge-off ratio declined from 0.66% to 0.59% during the same period. The number of credit unions reporting an increase in net charge-offs greater than 100 basis points remained the same at 14 during the third quarter of 2006. However, credit unions reporting net charge-offs greater than 1.5% of average loans declined by 10 to 15 at September 30, 2006.

Conclusion

Overall, the financial condition of Michigan state-chartered credit unions remains strong. Directors and management teams must monitor the financial condition of their credit union on an ongoing basis. Sound risk management includes timely identification of potential risks and adverse trends, and taking appropriate steps to ensure risks are properly managed.

I hope the information in this letter is helpful in making informed business decisions. Operating a financial institution safely and soundly requires diligence in risk identification, measurement, and management.

Sincerely,

Roger W. Little, Deputy Commissioner
Credit Union Division